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RR RUEHLMC
DE RUEHSN #0830/01 1931716
ZNR UUUUU ZZH
R 111716Z JUL 08
FM AMEMBASSY SAN SALVADOR
TO RUEHC/SECSTATE WASHDC 9771
RUEHZA/WHA CENTRAL AMERICAN COLLECTIVE
RUCPDOG/USDOC WASHDC
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUEHLMC/MILLENNIUM CHALLENGE CORP WASHINGTON DC
RUMIAAA/CDR USSOUTHCOM MIAMI FL
RUEHME/AMEMBASSY MEXICO 6726

UNCLAS SECTION 01 OF 02 SAN SALVADOR 000830

STATE PASS USAID/LAC
STATE ALSO PASS USTR
USDOC FOR 4332/ITA/MAC/WH/MSIEGELMAN

SENSITIVE
SIPDIS

E.O. 12958: N/A

TAGS: [ETRD](#) [EINV](#) [ECON](#) [ES](#)

SUBJECT: MINISTER OF ECONOMY REVIEWS CAFTA, BILATERAL ECONOMIC
ISSUES

REF: SAN SALVADOR 812

1. (SBU) Summary. Minister of Economy Yolanda de Gavidia and the Ministry of Economy's (MINEC) senior leadership team discussed CAFTA-DR and bilateral issues from mining to telecommunications with EconCouns on June 20. De Gavidia pushed for efforts to "keep CAFTA-DR alive" and requested U.S. assistance for constructing a pork processing plant and completing technical fixes to CAFTA-DR. De Gavidia also acknowledged that a proposed international telephone tax would hurt El Salvador's competitiveness. Minister De Gavidia resigned effective June 30. Information on her successor will be reported septel. End Summary.

2. (U) On June 20, EconCouns and EconOff met with (now former) Minister of Economy Yolanda de Gavidia at the Minister's request. Vice Minister Johanna Hill, Director of Trade Policy Juan Carlos Fernandez, and CAFTA-DR Office Chief Jorge Guzman also participated.

CAFTA-DR

3. (U) Minister de Gavidia provided a copy of the Ministry's draft report highlighting CAFTA-DR successes after two years. She stated that she thought a meeting among the Central American ministers and U.S. Trade Representative Susan Schwab was very important "to keep the treaty alive." Based on their latest conversations, de Gavidia expected a "coordinator"-level meeting in August, a Vice Minister-level meeting in September, and the Ministerial in late September/early October. (COMMENT: With de Gavidia's departure, it is unclear if MINEC will continue to push for the conference. END COMMENT.)

4. (SBU) Vice Minister Hill briefed on environment and labor developments, noting the Government's overall satisfaction with the level of cooperation on both. Hill stated that El Salvador had presented a plan to the Council on Environmental Issues that would detail the procedures for elevating matters to the Secretariat of Environmental Issues. Once the Central American countries reached agreement, they would forward the draft to the United States. On labor issues, Hill expressed concerns about cuts to the International Labor Organization's (ILO) programs for combating the worst forms of child labor. While El Salvador had made considerable progress, she noted that more needed to be done.

5. (SBU) Noting that the NAFTA cumulation and "pocketing" agreements would enter into force in mid-August, de Gavidia stated that El Salvador would appreciate a visit that could highlight the benefits of the agreements to producers. Guzman added that El Salvador was still waiting for progress on "technical fixes" on other textile

issues (e.g., a Harmonized Tariff System designation for sleepwear) after two years; they have been waiting "for several months" on a new draft from USTR.

16. (SBU) De Gavidia repeated requests for U.S. assistance in building a pork processing plant the Government of El Salvador promised pork producers during CAFTA negotiations. The Government had purchased the land, and Spain had provided funding for the design. The Ministry of Foreign Affairs has sent the U.S. Department of Agriculture the proposal, and de Gavidia promised to send a copy to Post, which we have yet to receive.

17. (U) Commenting on media reports before the visit of HHS Secretary Leavitt that the U.S. Food and Drug Administration (FDA) would open offices overseas, de Gavidia stated that the Government of El Salvador hoped the FDA would put any Central American office in El Salvador.

GOVERNMENT PROCUREMENT

18. (SBU) De Gavidia said that El Salvador was interested in pursuing government procurement contracts with the U.S. Department of Defense; Salvadoran companies had identified several possibilities, especially with the U.S. Navy. The Government of El Salvador hopes to pursue exceptions/waivers to the Berry Amendment, possibly through a Memorandum of Understanding between the respective Defense Ministries.

ARBITRATION & TELECOMMUNICATIONS

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19. (SBU) EconCouns raised a legislative proposal that would put arbitration under control of the Supreme Court. He also raised the Saca Administration's proposed tax on telephone calls originating from outside of El Salvador; both acts that would send a strong negative message to investors. EconCouns also noted that U.S. telcom Americatel had won an arbitration decision that it was unable to enforce because of delay tactics by Mexican-owned CTE in the Salvadoran courts, yet another negative signal to investors. De Gavidia acknowledged that the telephone tax would make El Salvador less competitive in the international marketplace, but it was a decision by the Ministry of Hacienda (Finance) and the money for new social programs "had to come from somewhere." She added that the big call center operations (e.g., Dell) should be unaffected. De Gavidia had no comment on the Americatel case or the legislative arbitration proposal.

MINING

110. (SBU) EconCouns discussed the mining sector, stating that companies like Pacific Rim had approached the Embassy because the Government of El Salvador was not following its own procedures for approval (reftel). De Gavidia said that the government was about to complete the tender for a 9-month environmental impact study covering the entire country. She was aware that the mining companies might bring a case under CAFTA-DR, but MINEC's primary concern was that anything done "is safe for the environment."

COMMENT

111. (SBU) The discussion was, in fact, de Gavidia's end of tenure review, and her emphasis on CAFTA-DR reflects the area in which she enjoyed the most success. In her final months in office, much of the economic policy-making appeared to have shifted from MINEC to the political wing of the Presidency in the run-up to the 2009 election. De Gavidia subtly acknowledged this when, noting who was driving which issue before reiterating the government position. Her replacement, Ricardo Esmahan, the former head of the Agricultural Business Chamber (more reported septel) has already made one misstep. He suggested July 7 that the GOES would look into re-establishing international price parity controls for gasoline

prices. However, that notion was quickly shot down by President Saca on July 8 (as it had been previously by de Gavidia), stating the GOES would stick with free market principles when it came to gasoline prices.

Glazer